

**AUDITED FINANCIAL STATEMENTS OF
THE OFFICE OF THE COMPTROLLER OF
THE CURRENCY FOR CALENDAR YEAR 1999**

OIG-00-084

MAY 19, 2000



Office of Inspector General

United States Department of the Treasury



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

May 19, 2000

MEMORANDUM FOR JOHN D. HAWKE, JR.
COMPTROLLER OF THE CURRENCY
OFFICE OF THE COMPTROLLER OF THE CURRENCY

FROM: Dennis S. Schindel *Dennis Schindel*
Assistant Inspector General for Audit

SUBJECT: Audited Financial Statements of the Office of
The Comptroller of Currency for Calendar Year 1999

I am pleased to transmit the audited Calendar Year (CY) 1999 financial statements for the Office of the Comptroller of the Currency (OCC). The OCC's financial statements were audited by KPMG, LLP, an Independent Public Accountant (IPA). The IPA issued the following reports, which are included in the attachment:

- Independent Auditors' Report on Financial Statements;
- Independent Auditors' Report on Internal Control over Financial Reporting; and
- Independent Auditors' Report on Compliance with Laws and Regulations.

The IPA rendered an unqualified opinion on OCC's CY 1999 financial statements. However, the Independent Auditors' Report on Internal Control over Financial Reporting cited four reportable conditions, none of which were considered material weaknesses:

- Timely reconciliation of the Fund Balance with Treasury account was not performed (Downgraded Prior Year Material Weakness).
- Policies and procedures were not adequately documented for many of OCC's accounting and financial processes (Prior Year Condition).
- Internal controls over timekeeping were not adequate.
- Adequate controls over disbursements were not in place.

The IPA's Report on Compliance with Laws and Regulations disclosed no instances of material noncompliance. However, the IPA noted that OCC reported three material instances of nonconformance for Fiscal Year 1999 under the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA), in its annual assurance statement submitted to Treasury, as follows:

- No formal management accountability program;
- No formal system for administrative control of funds; and
- Non-compliance with the United States Standard General Ledger at the transaction level.

The IPA also issued a management letter dated April 14, 2000, discussing issues that were identified during the audit, but were not required to be included in the audit reports.

My staff monitored the conduct of the audit and performed a quality control review of the IPA's working papers. The audit was performed in accordance with *Government Auditing Standards*, as issued by the Comptroller General of the United States.

Should you have any questions, please contact me at (202) 927-5400, or a member of your staff may contact William H. Pugh, Deputy Assistant Inspector General for Financial Management and Information Technology Audits, at (202) 927-5430.

Attachment

**OFFICE OF THE COMPTROLLER
OF THE CURRENCY**

**Financial Statements
For the Year Ended December 31, 1999**

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2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report on Financial Statements

The Comptroller of the Currency:

We have audited the accompanying statement of financial position of the Office of the Comptroller of the Currency (OCC) as of December 31, 1999, and the related statements of operations and changes in net position and cash flows for the year then ended. These financial statements are the responsibility of the management of the OCC. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Office of the Comptroller of the Currency as of December 31, 1999, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued reports dated April 14, 2000 on our consideration of the Office of the Comptroller of the Currency's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

April 14, 2000



OFFICE OF THE COMPTROLLER OF THE CURRENCY
Statement of financial position
As of December 31, 1999

Assets

Fund balance with Treasury, cash and cash equivalents:	
Fund balance with Treasury	\$ 2,454,193
Cash and cash equivalents	<u>6,958,092</u>
Subtotal, fund balance with Treasury, cash and cash equivalents	 9,412,285
Receivables:	
Interest receivable	1,459,998
Accounts receivable, net	<u>424,379</u>
Subtotal, receivables	 1,884,377
Prepayments	3,169,590
Investments (Note 3)	202,506,847
Property, plant, and equipment, net (Notes 4 and 7)	<u>26,858,621</u>
Total assets	 <u><u>\$ 243,831,720</u></u>

Liabilities and net position

Accrued expenses	\$ 7,490,990
Accounts payable	2,890,561
Accrued payroll and benefits	18,013,767
Accrued annual leave	19,079,836
Post-retirement benefit liability (Note 6)	<u>6,394,746</u>
Total liabilities	53,869,900
Net position (Note 7)	<u>189,961,820</u>
Total liabilities and net position	 <u><u>\$ 243,831,720</u></u>

The accompanying notes are an integral part of these statements

OFFICE OF THE COMPTROLLER OF THE CURRENCY
Statement of operations and changes in net position
For the year ended December 31, 1999

Revenue and Financing Sources

Assessments	\$ 378,562,988
Corporate fees	2,025,886
Investment income	13,040,584
Other	1,685,494
Total revenue and financing sources	<u>395,314,952</u>

Operating expenses

Personnel compensation and benefits (Note 6)	264,551,179
Travel	27,498,744
Employee relocation expenses	4,680,131
Education and conferences	5,778,463
Rent and communications (Note 5)	31,680,987
Office equipment and software	5,958,112
Contractual services	28,514,987
Depreciation and amortization	3,521,796
Repairs and maintenance	5,284,172
Office supplies	4,235,426
Postage and freight	1,501,762
Printing, reproduction, and other	824,557
Total operating expenses	<u>384,030,316</u>

Excess of revenue and financing sources over operating expenses	11,284,636
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Net Position, Beginning of year

As previously reported	153,805,663
Prior period adjustments (Note 7)	24,871,521
As adjusted	<u>178,677,184</u>

Net Position, End of year	<u>\$ 189,961,820</u>
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The accompanying notes are an integral part of these statements

Office of the Comptroller of the Currency
Statement of cash flows
For the year ended December 31, 1999

Cash flows from operating activities

Excess of revenue over operating expenses	\$ 11,284,636
Adjustments affecting cash flow	
Increase in receivables	(1,110,016)
Increase in prepayments	(212,644)
Decrease in accrued expenses	(6,962,150)
Decrease in accounts payable	(4,657,585)
Increase in accrued payroll and benefits	1,708,135
Increase in accrued annual leave	935,646
Increase in post-retirement benefit liability	597,888
Depreciation and amortization	3,521,796
Net cash provided by operating activities	<u>5,105,706</u>

Cash flows from investing activities

Proceeds from sales of investment securities	541,553,499
Purchases of investment securities	(532,144,772)
Purchases of property, plant, and equipment	(12,667,261)
Net cash used in investing activities	<u>(3,258,534)</u>

Increase in Fund Balance with Treasury, cash and cash equivalents	1,847,172
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Fund Balance with Treasury, cash and cash equivalents beginning of the year	<u>7,565,113</u>
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Fund Balance with Treasury, cash and cash equivalents end of the year	<u><u>\$ 9,412,285</u></u>
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The accompanying notes are an integral part of these statements

OFFICE OF THE COMPTROLLER OF THE CURRENCY

NOTES TO FINANCIAL STATEMENTS

Note 1—Organization

The Office of the Comptroller of the Currency (OCC) was created as a bureau within the Department of the Treasury (the Department) by act of Congress in 1863. The OCC was created for the purpose of establishing and regulating a system of federally chartered national banks. The National Currency Act of 1863, rewritten and reenacted as the National Bank Act of 1864, authorized the OCC to supervise national banks and to regulate the lending and investment activities of these federally chartered institutions.

The revenue of the OCC is derived principally from assessments and fees paid by the national banks and income on investments in U.S. government obligations. The OCC does not receive Congressional appropriations to fund any of its operations.

By federal statute at 12 USC § 481, the OCC's funds are maintained in an U.S. government trust revolving fund. The funds remain available to cover the annual costs of OCC operations in accordance with policies established by the Comptroller of the Currency.

The OCC is a bureau within the Department of the Treasury (the Department). Departmental Offices (DO), another entity of the Department, provides certain administrative services to the OCC. The OCC pays the Department for services rendered pursuant to established interagency agreements. Periodically, payments are made in advance for anticipated services in accordance with instructions from the DO. Administrative services provided by the Department totaled \$2,979,362 for the year ended December 31, 1999.

Note 2—Significant Accounting Policies

Basis of Accounting

The accounting policies of the OCC conform to generally accepted accounting principles (GAAP). Accordingly, the financial statements are presented on the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to cash receipt or payment.

Fund Balance with Treasury, Cash and Cash Equivalents

Cash receipts and disbursements are processed primarily by the U.S. Treasury. The funds with the U.S. Treasury are available to pay current liabilities. The OCC considers overnight investments to be cash equivalents.

Receivables

Receivables represent monies owed to the OCC for services or goods provided and interest on investments in U.S. Government obligations. Accounts receivables are shown net of an allowance for doubtful accounts of \$115,944 as of December 31, 1999. The OCC wrote off receivables totaling \$50,959 as uncollectible during 1999.

Liabilities

Liabilities represent the amount of monies that are likely to be paid by the OCC as the result of a transaction or event that has already occurred. Liabilities represent the amounts owing or accruing under contractual or other arrangements governing the transactions, including operating expenses

OFFICE OF THE COMPTROLLER OF THE CURRENCY

NOTES TO FINANCIAL STATEMENTS

incurred but not yet paid. Payments are made in a timely manner in accordance with the Prompt Payment Act. Interest penalties are paid when payments are late. Discounts are taken when cost effective and the invoice is paid by the discount date.

Annual, Sick, and Other Leave

Annual leave is accrued as earned, and the accrual is reduced as leave is taken or paid. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. Sick leave and other types of leave are expended as taken.

Use of Estimates

The preparation of financial statements, in accordance with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Note 3—Investments

Investments are U.S. Government obligations stated at amortized cost, which is an approximation of the fair value and reflect maturities through May 15, 2006. The OCC plans to hold these investments to maturity.

Premiums and discounts are amortized over the term of the investment using the straight-line method, which approximates the effective yield method. The fair value of investment securities is estimated based on quoted market prices for those or similar investments.

The cost and estimated fair value of investment securities as of December 31, 1999 are as follows:

Investments,	
at amortized cost	\$ 202,506,847
Gross unrealized	
holding loss	(577,728)
Market value	\$ 201,929,119

Investments, at par value, mature as follows:

During 2000	\$ 67,800,000
During 2001	30,000,000
During 2002	80,000,000
During 2006	25,000,000

Note 4—Property and Equipment

Property and equipment purchased with a cost greater than or equal to the thresholds below and useful lives of two years or more are capitalized at cost and depreciated or amortized, as applicable:

<u>Type</u>	<u>Threshold</u>
• Furniture, fixtures, machines, equipment, portable computers, motor vehicles, and leasehold improvements	\$ 50,000
• Bulk and aggregate purchases	250,000
• Internal use software	500,000

Leasehold improvements are amortized on a straight-line basis over the lesser of the terms of the related leases or their estimated useful lives. All other property and equipment are depreciated or amortized, as applicable, on a straight-line basis over their estimated useful lives.

OFFICE OF THE COMPTROLLER OF THE CURRENCY

NOTES TO FINANCIAL STATEMENTS

The following table summarizes property and equipment balances as of December 31, 1999.
(See Note 7 regarding prior period adjustments):

Class of Assets	Service life (years')	Acquisition value	Accumulated depreciation/amortization	Net book value
Leasehold improvements	5-20	\$ 29,568,324	\$ 16,700,608	\$ 12,867,716
ADP software	5-10	2,021,763	2,011,038	10,725
Equipment	3-10	11,610,353	6,598,813	5,011,540
Furniture and fixtures	5-10	1,464,212	1,024,147	440,065
Internal Use Software	5	8,528,575	- 0 -	8,528,575
Totals		\$ 53,193,227	\$ 26,334,606	\$ 26,858,621

Note 5—Leases

The OCC leases office space for headquarters operations in Washington, D.C., and for the district and field operations throughout the United States. The lease agreements expire at various dates through 2008. These leases are treated as operating leases.

Future lease payments are shown in the following table:

2000	\$ 22,921,631
2001	22,039,792
2002	20,491,678
2003	18,239,006
2004	14,693,966
Thereafter	<u>18,910,956</u>
Total minimum lease payments	\$ <u>117,297,029</u>

Certain of these leases provide that annual rentals may be adjusted to provide for increases in taxes and other related expenses. Total rental expense under operating leases and taxes and other related expenses for all leases was \$25,086,081 for 1999.

Note 6—Retirement and Benefit Plans and Accrued Annual Leave

Retirement Plans

The OCC employees are eligible to participate in one of two retirement plans. Employees hired prior to January 1, 1984 are covered by the Civil Service Retirement System (CSRS) unless they elected to join the Federal Employees Retirement System (FERS) and Social Security during the election period. Employees hired after December 31, 1983 are automatically covered by FERS and Social Security. For employees covered by CSRS, the OCC contributes 8.51 percent of their gross pay to the plan. For employees covered by FERS, the OCC contributes 10.7 percent of their gross pay. The OCC contributions totaled \$19,330,281 in 1999.

The OCC does not report on its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, or unfunded liabilities, if any, are the responsibility of the Office of Personnel Management (OPM).

OFFICE OF THE COMPTROLLER OF THE CURRENCY

NOTES TO FINANCIAL STATEMENTS

Other Benefit Plans

The OCC employees are eligible to participate in the Federal Thrift Savings Plan (TSP). For those employees under FERS, a TSP account is automatically established, and the OCC contributes a mandatory 1 percent of basic pay to this account. In addition, the OCC matches employee contributions up to an additional 4 percent of pay, for a maximum OCC contribution amounting to 5 percent of pay. Employees under CSRS may participate in the TSP, but do not receive the OCC automatic (1 percent) and matching contributions. The OCC contributions for the savings plan totaled \$4,817,021 in 1999. The OCC also contributes for Social Security and Medicare benefits for all eligible employees.

Employees and retirees of the OCC are eligible to participate in the Federal Employees Health Benefits (FEHB) plans and Federal Employees Group Life Insurance (FEGLI) plan, which are Cost sharing employee benefit plans administered by the OPM. The OCC contributions for active employees who participate in the FEHB plans were \$8,898,397 for 1999. The OCC contributions for active employees who participate in the FEGLI plan were \$160,428 for 1999.

The OCC sponsors a life insurance benefit plan for current and former employees. Premium payments made during 1999 totaled \$120,370. The following table shows the accrued post-retirement benefit cost for this plan at December 31, 1999 and the post-retirement benefit expenses for 1999:

Accumulated post-retirement benefits obligation	\$	(7,736,547)
Fair value of assets		-
Funded status		(7,736,547)
Unrecognized transition obligations		2,246,892
Unrecognized net gain		(905,091)
Accrued post retirement benefit cost	\$	<u>(6,394,746)</u>

Net periodic post-retirement benefit cost for 1999

Service cost	\$	285,019
Interest cost		498,487
Amortization of gain		(22,054)
Amortization of transition obligation over 20 years		<u>172,837</u>
Net periodic post-retirement benefit cost	\$	<u>934,289</u>

The weighted-average discount rate used in determining the accumulated post-retirement benefit obligation was 7.5 percent. Gains or losses due to changes in actuarial assumptions are fully recognized in the year in which they occur.

Workers' Compensation Liability

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for OCC employees under FECA are administered by the Department of Labor (DOL) and later billed to the OCC.

OFFICE OF THE COMPTROLLER OF THE CURRENCY

NOTES TO FINANCIAL STATEMENTS

The OCC accrued \$3,757,436 of workers' compensation costs as of December 31, 1999. This amount includes unpaid costs and an estimated unfunded liability for unbilled costs incurred as of year-end, as calculated by DOL.

Note 7 -- Prior Period Adjustments

The OCC's prior period adjustments consist of the following for the year ended December 31, 1999:

- | | |
|--|----------------------|
| 1. Correction of accounting for lease agreement of the office space in Washington D.C. | \$ 22,729,837 |
| 2. Correction of accrual for payroll benefits | 689,652 |
| 3. Correction of accrual for Relocation costs | <u>1,452,032</u> |
| Total Prior Period Adjustments | \$ <u>24,871,521</u> |

year ended December 31, 1999 of \$2,559,999.

2. The correction of accrual for payroll benefits was made to reverse an excessive accrual made in 1998 for amounts due to OPM regarding employee and retiree benefits.
3. The correction of accrual for relocation costs was made to reverse excessive accruals from 1996 and 1998 for relocation costs that were not incurred.

1. The correction of accounting for lease agreement of the office space in Washington, D.C. was made to recognize that the lease should have been treated as an operating lease to conform with GAAP. During 1999, OCC performed an analysis of the accounting treatment for the lease agreement and identified that it had been inappropriately treated as a capital lease since inception. The resulting effect of this correction on the Balance Sheet as of December 31, 1998 is a reduction to Property, Plant and Equipment of \$76,933,048 and the elimination of the Capital Lease Liabilities of \$99,662,885. Furthermore, the effect of not correcting the treatment of this lease agreement would have been an increase in operating expenses for the



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Independent Auditors' Report on Internal Control over Financial Reporting

The Comptroller of the Currency:

We have audited the financial statements of the Office of the Comptroller of the Currency (OCC) as of and for the year ended December 31, 1999, and have issued our report thereon dated April 14, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The management of the OCC is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal controls are to provide management with reasonable, but not absolute, assurance that:

- Transactions are executed in accordance with laws and regulations that could have a direct and material effect on the financial statements;
- Assets are safeguarded against loss from unauthorized acquisition, use or disposition; and
- Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in internal control, misstatements, losses, or noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of internal controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we considered the OCC's internal control over financial reporting by obtaining an understanding of the OCC's significant internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our



internal control testing to those controls necessary to achieve the objectives described above. We did not test all internal controls relevant to operating objectives broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control over financial reporting. Consequently, we do not provide an opinion on internal control over financial reporting.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be reportable conditions under standards issued by the American Institute of Certified Public Accountants and, accordingly, would not necessarily disclose all reportable conditions that are material weaknesses. Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls that, in our judgment, could adversely affect the OCC's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted certain matters, discussed in Exhibit I, involving the internal control over financial reporting and its operation that we consider to be reportable conditions. We do not consider these matters to be material weaknesses as defined above. A summary of the status of material weaknesses and other reportable conditions included in our prior year *Independent Auditors' Report on Internal Control Over Financial Reporting* is included as Exhibit II. Management's response to our findings and recommendations is presented following Exhibit II.

We also noted other matters involving internal controls and their operation that we have reported to the management of the OCC in a separate letter dated April 14, 2000.

This report is intended solely for the information and use of the OCC management, the U.S. Department of the Treasury Office of the Inspector General, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

April 14, 2000

OFFICE OF THE COMPTROLLER OF THE CURRENCY
Reportable Conditions
For the Fiscal Year Ended December 31, 1999

1. *Timely reconciliation of the Fund Balance with Treasury account with U.S. Treasury records was not performed*

Finding

Fund Balance with Treasury is the aggregate amount of funds in the Office of the Comptroller of the Currency's (OCC's) account with Treasury from which it is authorized to make expenditures and pay liabilities. The controls over capturing and reconciling the appropriate information for inclusion in the financial statements are essential to ensure that the related balances are complete and accurate.

The OCC has not regularly performed reconciliation of its records with Treasury records for fund balance in a timely manner. Reconciliation procedures for the month of May 1999 were not completed until October 1999. We note that OCC improved its performance at year-end, as reconciliation procedures were completed concurrent with the initial closing of the December 1999 general ledger in February 2000.

Not reconciling and documenting the reconciliation of Fund Balance with Treasury on a timely basis could result in errors in the accounting records going undetected. In addition, the absence of such procedures could hinder effective cash management and increase the risk that a misappropriation of funds could go undetected.

Recommendation

The OCC should reemphasize the importance of timely reconciliation procedures to those responsible for their performance and enforce reasonable deadlines for their completion after each month end. The task of performing the reconciliations (including identification of reconciling differences and research and resolution of those differences) should be assigned to individuals with appropriate training, skills, and resources. Correction and resolution of reconciling items should be reviewed by appropriate supervisory personnel. Such review should be documented.

2. *Policies and procedures are not adequately documented*

Finding

The Comptroller's Office lacks adequate written procedures for many of its accounting and financial processes. Although OCC documented procedures in several areas during 1999, we note that as of December 31, 1999 many key policies were still in draft versions and in

several areas OCC lacked standard operating procedures that employees could follow in performing their duties. The unwritten institutional knowledge of employees is often relied upon to ensure that transactions are accounted for and reported properly in the financial statements. The absence of sufficiently written procedures and guidelines increases the risks of inconsistent or inaccurate implementation of accounting and financial processes by employees. Without well documented procedures it is difficult for management to succeed at achieving an appropriate match of individuals to clearly defined tasks, training, functional skills, and supervisory review to bring improved accountability to the financial processes.

The following are examples of areas that lack adequately documented policies and procedures:

1. *Cash receipts and accounts receivable.* Adequate written procedures have not been documented for processing receipts and reconciling OCC records to bank and other third party data for bank assessments (\$378 million in 1999), as well as recording of accounts receivable for other goods and services, including receivables from employees.
2. *Payroll and benefits accounting process.* Undocumented payroll and benefits functions include accounting for OCC life insurance plan benefits, and reconciliation and posting procedures for accruals and payments of federal, state, and FICA withholdings for employee relocation salary gross-ups.

Although OCC documented procedures performed by accounting staff in some payroll areas, we note that OCC has not documented procedures for supervisory review of key payroll accounting processes. Examples of areas for which OCC has not documented procedures for supervisory review include:

- Reconciliation of general ledger postings of payroll and benefits expenses to NFC payroll data.
 - Calculation of payroll and benefits accruals.
3. *Accounting for property and equipment.* OCC lacks adequate written procedures for many procedures performed in the accounting for property and equipment. For example, although OCC has documented draft policies for bulk purchases of property and equipment, operational procedures are not documented for the identification, processing, and recording of quantity purchases of items that, in aggregate, represent items that must be capitalized under the policy. Without such procedures, assets may be expensed rather than capitalized because individual items with costs above the capitalization threshold can be difficult to recognize as part of a bulk purchase.

4. *Investments Process.* OCC had not documented its policy for and method of designating personnel with authority to approve investment (purchases and redemptions) transactions.
5. *Reconciliation of Fund Balance with Treasury.* OCC had not documented its procedures for reconciliation of its records with Treasury's records for Fund Balance with Treasury.

Recommendation

OCC should develop a comprehensive policies and procedures manual that includes thoroughly written and easily understood desk procedures for all accounting processes. The manual should be updated on a regular basis and include current policies, references to applicable laws and regulations, and step-by-step instructions for processing transactions, obtaining proper approvals, and maintaining supporting documentation.

3. Internal controls over timekeeping were not adequate

OCC did not consistently follow its procedures for timekeeping functions. The following are examples of areas in which procedures for internal controls over timekeeping were not followed:

1. OCC certifying officials did not timely review, approve, and submit timekeeping certifying rosters to timekeeping coordinators. Of the 45 certifying rosters we tested, there were 12 instances in which the certifying rosters were not signed and submitted to timekeeping coordinators in a timely manner. OCC policy states that certifying rosters should be reviewed and returned by the second Friday following the end of the pay period. Untimely review of certifying rosters increases the risk that errors, fraud, or omissions in annual leave, sick leave, comp time, etc. will go undetected.
2. Leave slips were not provided to timekeepers on a timely basis. In our sample of 45 items we noted five instances in which the leave slip for the period was not processed timely, as required by OCC policy. In one of these instances, the employee had a negative leave balance at year-end (contrary to OCC policy) which was not reflected in the NFC system until the following year because of the delay in processing the leave slip. We also noted one instance in which leave was processed in the Time Entry system although the leave slip had not been approved by a supervisor.

OCC's procedures do not describe the method by which leave slips are to be provided to timekeepers or whether leave slips should be reviewed by certifying officers. In the absence of timely recording of leave slips, the risk of employees taking leave without their leave balances being charged is increased. Additionally, leave slips may be processed with errors if not reviewed by a supervisor.

3. OCC has only been performing internal audits of leave for employees separating from OCC. These leave audits are performed by the timekeeper that originally entered the leave data, and only include pay periods since the beginning of the current calendar year in which the employees separated from OCC.

By performing leave audits only on separated employees, the risk of leave being misstated and not detected is greatly increased. Given the limited scope of the internal audits, errors in prior years would not be detected. Additionally, the practice of having time keepers audit their own work represents a lack of proper segregation of duties and increases the risk that errors or fraud will go unreported.

Recommendation 1

OCC should implement procedures to enforce timely and accurate review of certifying rosters by certifying officials. Examples of internal controls that could be implemented are:

- As part of a periodic payroll quality review process, review a sample of certifying rosters and determine that the rosters reflect the correct type of leave and number of hours as supported by approved leave slips.
- Implement supervisory review of the timeliness of filing of certifying rosters with Time Entry (TE) coordinators. A supervisor should review and document whether TE coordinators are maintaining correct records of submitted certifying rosters and performing timely follow-up of delinquent rosters.
- Require timekeeping coordinators to inform the CFO (or other applicable management position) of delinquent submission of certifying rosters so that timely management follow up action can be taken.

Recommendation 2

OCC should strengthen procedures and internal controls over accounting for personal leave and develop procedures to ensure compliance with policies as follows:

- Supervisors should submit leave slips to timekeepers by noon Monday following the end of a pay period.
- Timekeepers should provide the certifying roster and leave slips to the certifying officers by the end of the second Monday after the pay period.

- Timekeepers should ensure that leave slips submitted without approval are routed to the applicable supervisor for approval.
- OCC should periodically review bi-weekly annual leave slips to determine the leave was properly recorded and approved.

OCC should also enact a policy of requiring leave audits be performed by a person(s) who is not responsible for entering the personal leave data into the system. OCC should consider implementing a policy to periodically perform leave audits for a sample of current employees and timekeepers.

4. Adequate controls over disbursements were not in place

We noted numerous examples of OCC employees failing to follow OCC procedures related to processing of disbursements.

1. OCC does not always properly retain and maintain original Time and Travel Reporting System (TTRS) vouchers. OCC could not locate 7 of 45 original vouchers we requested for review. OCC provided unofficial copies of 4 of the 7 TTRS vouchers by obtaining copies that employees had made for their personal records. OCC needed several weeks to locate many of the remaining TTRS vouchers. Additionally, OCC could not locate one of 45 vendor vouchers we requested for review.
2. In addition to missing documentation, we noted numerous other compliance and accuracy exceptions in our review of disbursement documentation as follows:
 - Certain TTRS vouchers contained an authorized official's signature dated after the expense reimbursement check was issued.
 - Although certain TTRS vouchers included an employee request for a Government Card direct payment to the issuing bank, the payment was made directly to the employee.
 - Certain TTRS vouchers were submitted later than 10 days after expenses were incurred (Violation of page 43 of the OCC Handbook for Travel).
 - Certain TTRS vouchers did not include proper supporting documentation.
 - Certain travel vouchers contained expense calculation errors that were not identified by the approving official (however, the errors were detected and corrected by OCC financial services personnel prior to disbursement).
 - Purchase orders were not included in the voucher package for certain vendor vouchers for district office purchases.
 - Certain vendor vouchers were not stamped with a receipt date.

- Certain vendor vouchers (from the Central District Office) revealed items which were purchased prior to receiving approval.
- Certain vendor voucher packages did not include proper supporting evidence to indicate that goods/services were received.
- Certain vendor vouchers were processed for payment although an approval signature on the Invoice Control Sheet, which is required for a payment to be processed, was missing.
- In testing accounts payable detail one item, out of a sample of 15 items, was erroneously approved and paid for an amount \$5,034 greater than the amount of the invoice. OCC recovered these funds after being notified of the error.

Failure to perform key internal control functions puts OCC at risk of failing to prevent and detect errors, fraud, or omissions in travel and vendor disbursements, accounting records, and compliance with laws and regulations.

Recommendations

In order to improve internal control over accounts payable and disbursements, we recommend OCC:

- Develop written desk policies and procedures addressing proper methods for filing and storing documentation at all OCC locations, including the length of time that support should be stored on-site and which employees are responsible for managing storage files; and
- Strengthen its quality control review procedures over TTRS and vendor disbursement processing and accounting functions.

OFFICE OF THE COMPTROLLER OF THE CURRENCY

Status of Prior Year Findings

1998 Finding	Type	1999 Status
<i>Timely reconciliation of Fund balance with Treasury account with U.S. Treasury records was not performed</i>	1998 – Material Weakness 1999 – Reportable Condition	Although improvements have been made subsequent to fiscal year end, reconciliations during 1999 were not performed timely. This finding has been revised to reflect current operations and included as a non-material reportable condition for 1999.
<i>Account analyses and other significant accounting tasks were not performed and/or were not subject to adequate supervisory review</i>	1998 – Material Weakness 1999 – Other Comments	OCC has made significant improvements in its performance of account analyses and accounting tasks. However, continuing minor weaknesses noted during 1999 indicate continued attention to improvements and timeliness of performance in this area is necessary. This finding has been addressed with specific comments in a separate letter to OCC management.
<i>An adequate process was not in place for review and evaluation of the accounting treatment for unusual or nonroutine financial events</i>	1998 – Material Weakness 1999 – Closed	OCC financial management implemented processes whereby experienced senior management addresses and resolves unusual accounting issues as they arise. As a result, this finding is considered closed.
<i>The OCC lacks adequate written procedures for many of its accounting and financial processes</i>	1998 – Reportable Condition 1999 – Reportable Condition	Although some improvement has been made, this area deserves continued attention. This finding has been revised to reflect current operations and included as a continuing non-material reportable condition for 1999.
<i>Adequate controls and procedures for payment of Prompt Payment Act penalties are not in place</i>	1998 – Reportable Condition 1999 – Other Comment	OCC has made significant improvements in its ability to identify and calculate appropriate Prompt Payment Act penalties, when required. However, continuing minor errors noted during 1999 indicate continued attention to improvements in this area is necessary. This finding has been revised and included as a comment in a separate letter to OCC management.



Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

May 3, 2000

KPMG L.L.P.
2001 M Street
Washington, DC 20036

Ladies and Gentlemen:

We have reviewed your draft audit report on OCC's 1999 financial statements. We concur with your findings and appreciate your recommendations for improvements.

Your report recognizes that OCC's internal controls were noticeably strengthened since last year and that the material weaknesses identified during the audit of our 1998 financial statements were completely or partially eliminated. I am pleased to note that these accomplishments resulted from improvement efforts initiated in the fall of 1999. These improvements include adopting a more rigorous funds control process, updating existing accounting policies, reengineering some processes used, and strengthening documentation.

Additional improvements are still underway and more remains to be done to remedy the conditions that still exist in our internal controls. We will soon proceed to develop a corrective action plan that addresses the conditions you have identified.

We are confident that our continuing efforts will result in stronger internal controls for 2000 and thereafter, and we intend to consult with you, during the year, on some of the more significant initiatives that we are undertaking.

Sincerely,

Edward J. Hanley
Senior Deputy Comptroller and
Chief Financial Officer



2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report on Compliance with Laws and Regulations

The Comptroller of the Currency:

We have audited the financial statements of the Office of the Comptroller of the Currency (OCC) as of and for the year ended December 31, 1999, and have issued our report thereon dated April 14, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The management of the OCC is responsible for complying with applicable laws and regulations. As part of obtaining reasonable assurance about whether the OCC's financial statements are free of material misstatement, we performed tests of the OCC's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph disclosed no instances of noncompliance with laws and regulations which are required to be reported under *Government Auditing Standards*. However, we noted immaterial instances of noncompliance with laws and regulations that we have reported to management in a separate letter dated April 14, 2000.

Additionally, as a bureau within the U.S. Department of the Treasury, OCC reported three material instances of nonconformance for fiscal year 1999 under the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA), in its annual assurance statement submitted to Treasury, as follows:

- No formal management accountability program
- No formal system for administrative control of funds
- Non-compliance with the United States Standard General Ledger at the transaction level

This report is intended solely for the information and use of the OCC management, the U.S. Department of the Treasury Office of the Inspector General, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

April 14, 2000

